

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

March 31, 1999

To: The Chief Executive officer of Each U.S. Branch and Agency of a Foreign Bank Located in the Second Federal Reserve District

Enclosed are copies of forms for the following reports for the quarter ending March 31, 1999:

- Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002); and
- Supplemental Report of Assets and Liabilities of a Non - U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002S); and
- Revised instructions for the FFIEC 002 report.

Changes to the FFIEC 002 report form as of March 31, 1999, are summarized below. There are no changes to the FFIEC 002S.

FFIEC 002

Report Form Changes for the FFIEC 002

- (1) Elimination of Schedule RAL, Memorandum item 5 and 6 for the fair value and amortized cost of "High-risk mortgage securities."

Instructional Changes for the FFIEC 002

- (1) Adding a new Glossary entry "Internal-Use Computer Software" to conform with the American Institute of Certified Public Accountants (AICPA) Statement of

Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. SOP 98-1 provides guidance on whether costs of internal-use software should be capitalized (and then amortized) or expensed as incurred. Internal-use software has the following characteristics: (a) the software is acquired, internally developed, or modified solely to meet the entity's internal needs, and (b) during the software's development or modification, no substantive plan exists or is being developed to market the software externally.

- (2) Adding a new Glossary entry "Securities Activities" to the instructions, discussing the reporting of securities activities including descriptions of certain trading practices. These practices were previously discussed in the agencies' 1992 *Supervisory Policy Statement on Securities Activities*, which was replaced in April 1998 by a revised policy statement on investment securities that does not address these reporting issues.
- (3) Replacing glossary entry for "Assets Classified Loss" with "Allowance for Loan Losses." When a U. S. branch makes a full or partial direct write-down of a loan or lease that is uncollectible, the branch establishes a new cost basis for the asset. Some U.S. branches may attempt to reverse the previous write-down and "re-book" the charged-off loan or lease after concluding that the prospects for recovering the charge-off have improved. Re-booking of the charged-off loan is not an acceptable practice under generally accepted accounting principles and, therefore, is not acceptable for FFIEC 002 purposes. The Glossary entry "Allowance for Loan Losses" will indicate that once a new cost basis has been established for a loan or lease through a direct write-down of the asset, this cost basis may not be "written up" at a later date.
- (4) Revising general instructions to include Consolidation of Subsidiaries indicating that, to the extent required by generally accepted accounting principles (GAAP), a U.S. branch should consolidate all entities in which it maintains a controlling financial ownership interest, e.g., a direct or indirect ownership interest of more than 50 percent of an entity's outstanding voting shares.

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An original and one copy of the completed FFIEC 002 and FFIEC 002S report(s) (if applicable) must be returned, by mail or by messenger, no later than **April 30, 1999**. Any FFIEC 002 and FFIEC 002S reports received after 5:00 p.m. on April 30 will be considered late unless postmarked by April 27 or sent by overnight service by April 29. Completed reports should be submitted to:

**Federal Reserve Bank of New York
Regulatory Reports Division
33 Liberty Street, 4th Floor
New York, NY 10045
Attn: John Hidalgo**

Electronic submission of the FFIEC 002/FFIEC 002S report is available to all U.S. branches and agencies. We encourage you to take advantage of this method of report submission. Several vendors have developed software packages that provide the means to submit the FFIEC 002/FFIEC 002S report electronically. Submitting reports electronically using these software packages provides the following key benefits:

- A timely and efficient alternative to sending the report forms by mail;
- Data are checked automatically for miscalculated totals and blank fields; and
- A printed report is generated that can serve as your institution's permanent record of the report.

For information on filing the FFIEC 002/FFIEC 002S report electronically, please contact either Phillip Papaelias at (212) 720-6349 or Alex Santana at (212) 720-6357.

FASB Statement No. 133

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement establishes accounting and reporting standards for derivative standards, including certain derivative instruments embedded in other contracts, and for hedging activities. Under Statement No. 133, banks must recognize all derivatives as either assets or liabilities on the balance sheet and must measure those instruments at fair value. If certain conditions are met, a derivatives may be specifically designated as a %fair value hedge," a "cash

flow hedge," or a hedge of a foreign currency exposure of a net investment in a foreign operation.

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Statement No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Banks must adopt Statement No. 133 for FFIEC 002 purposes upon its effective date based on their fiscal year. Early application is permitted in the FFIEC 002 in accordance with the transition guidance in Statement No. 133. Piecemeal adoption of Statement No. 133 is not permitted.

The FFIEC 002 has not been revised as a result of FASB Statement No. 133. Once an institution adopts FAS 133, the fair value of trading derivatives should be reported in Schedule RAL, Assets and Liabilities, "Trading assets" Line i.f) (for positive fair values) or Schedule RAL, "Trading liabilities" (Line 4.e) (for negative fair values) . The fair value of contracts held for purposes other than trading should be reported in Schedule RAL, "Other assets" (Line I (for positive fair values) or schedule RAL, "Other liabilities" (Line 4.f) (for negative fair values). In addition, the unrealized gain or loss from these contracts should be reported as part of your institutions unremitted profit (loss) reported in Schedule M, Due from/Due to Related Institutions in the U.S ' . and in Foreign Countries, "Gross due to/due from Head office of parent bank (Part I, Line 2.a).

Website

Report forms and instructions for the FFIEC 002/FFIEC 002S could also be obtained from the Federal Reserve Board of Governors internet website at the following address: http://www.ffiec.gov/ffiec_report-forms.htm.

Annual FFIEC 002 Seminars

Please note a letter containing information on U.S. Branches and Agencies 1999 seminars was mailed to your institution's Chief Executive officer on March 23, 1999. Please remember to send in your registrations forms by April 9, 1999 for any individuals that wish to attend these seminars. If you have not received this letter or have any questions, you can contact Patricia Maone at (212) 7207871.

Reports Monitoring

Please note that, under the Regulatory Reports Monitoring Program, the timeliness of receipt of each of these reports will be monitored, and that submission of initial data via facsimile, even if prior to the deadline, does not constitute timely filing.

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We will also continue to monitor the accuracy of the periodic regulatory reports submitted for the March 31, 1999, report date. The staff of this Reserve Bank will monitor whether banking organizations are meeting their basic reporting requirements through the use of "validity edits." Enclosed are the edits for the FFIEC 002 report that are subject to monitoring.

Copies of this letter and its enclosures have been sent to the report liaison designated by your institution. If there are any questions concerning the FFIEC 002 or FFIEC 002S reports, please direct them to John Hidalgo at (212) 720-7998 or Susan Jessop at (212) 720-1561, respectively.

Sincerely,

Signed by Kenneth P. Lamar

Kenneth Lamar
Assistant Vice President
Financial Reports Department